

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: irvin@cnci.ci.detroit.mi.us

ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Pamela Scales, Director
Budget Department (Capital Budget)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 23, 2008

RE: 2008-2009 Budget Analysis

24.

Attached is our budget analysis regarding the Capital Budget for the upcoming 2008-2009 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General
Roger Short, Finance Director
Pamela Scales, Budget Director
Renee Short, Budget Department
Kerwin Wimberley, Mayor's Office

Capital Budget Hearing and Debt Service Fund

FY 2008-2009 Proposed General Obligation Bond Budget

FY 2008-2009 Budget Analysis by the Fiscal Analysis Division

The Mayor's 2008-2009 Recommended Budget includes an unlimited tax general obligation bond sale of \$52.2 million for citywide capital improvement projects. Unlimited tax general obligation bonds are city debt. The debt service levy for the principal and interest payment on unlimited tax general obligation bonds is over and above the 20 mills for operations. The Headlee Amendment to the State constitution, adopted in 1978, states that unlimited tax general obligation bonds cannot be issued without an affirmative vote of the electorate. The electorate has approved the proposed bond projects included in the Mayor's Recommended Budget.

In addition the proposed FY 2008-2009 Recommended Budget includes \$2.2 million in appropriations from interest earned from the investment of current unspent bond funds. The chart below includes both the bond sale proceeds and the allocation of investment earnings to departmental capital projects.

Comparison of Last 3 Capital Budgets and Mayor's Recommended Budget

2005-2006 Capital Funds	2006-2007 Capital Funds	2007-2008 Capital Funds	Department	2008-2009 Proposed Bond Sale	Investment Earnings
\$ -0-	\$ 5,000,000	\$ 1,000,000	Airport	\$ 3,500,000	\$ -0-
\$ 4,800,000	\$ 292,000	\$ 99,000	Detroit Institute of Arts	\$ -0-	\$ 100,000
\$ 200,000	\$ 1,000,000	\$ 200,000	Charles H. Wright Museum	\$ -0-	\$ -0-
\$ -0-	\$ -0-	\$ 200,000	Civic Center	\$ -0-	\$ -0-
\$ 10,000,000	\$ -0-	\$ -0-	DOT/DTC.	\$ -0-	\$ -0-
\$ 2,000,000	\$ -0-	\$ 2,430,000	Department of Public Works	\$ -0-	\$ -0-
\$ -0-	\$ -0-	\$ 1,000,000	Eastern Market	\$ -0-	\$ -0-
\$ 109,000	\$ 1,900,000	\$ 3,500,000	Fire	\$ 5,500,000	\$ -0-
\$ -0-	\$ -0-	\$ 4,487,000	General Service Department	\$ -0-	\$ 1,100,000
\$ -0-	\$ 1,000,000	\$ 5,000,000	Health	\$ 1,500,000	\$ -0-
\$ 281,000	\$ 500,000	\$ 2,800,000	Historical	\$ 17,200,000	\$ -0-
\$ 2,600,000	\$ -0-	\$ -0-	Homeland Security (Fire)	\$ -0-	\$ -0-
\$ -0-	\$ -0-	\$ 1,000,000	Library	\$ -0-	\$ -0-
\$ 1,000,000	\$ -0-	\$ 7,500,000	Planning and Development	\$ -0-	\$ -0-
\$ 20,500,000	\$ 5,000,000	\$ 15,000,000	Police	\$ 17,500,000	\$ -0-
\$ 2,800,000	\$ 12,900,000	\$ 7,000,000	Public Lighting	\$ 7,000,000	\$ -0-
\$ 5,800,000	\$ 17,550,000	\$ 4,085,000	Recreation	\$ -0-	\$ 1,000,000
\$ 1,500,000	\$ 5,000,000	\$ 985,000	Zoological Institute	\$ -0-	\$ -0-
\$ 51,590,000	\$ 50,142,000	\$ 56,286,000	Total	\$ 52,200,000	\$ 2,200,000

Council's questions and concerns regarding the specific departments' proposed and continuing capital improvement projects for FY 2008-2009 would be better addressed to the specific departments at their individual budget hearing. Policy

questions regarding the choices of departments allotted funding and specific dollar figures would be at this hearing.

Council has the ability to make programmatic changes to the Mayor's recommended bond program for 2008-2009 and those changes would be reflected in the Council's final vote on the budget. Council can revise the mix of recommended capital projects, add to or reduce the bond program amount. Any suggested amendments that significantly increase the total dollar amount of the bond sale, however, will impact the tax rate. The impact would be seen in the following fiscal year's tax rate, depending on the timing of the sale.

Debt Service Fund - Sinking Interest and Redemption

The Debt Service Fund represents the anticipated appropriation needed to pay debt service in FY 2008-2009 for all past general obligation bond sales and the costs for the 2008-2009 recommended bond sales. This appropriation is completely offset by the budgeted revenue of property tax, industrial facilities tax and commercial facilities tax that are obligated for the principal and interest payments on outstanding unlimited tax general obligation bonds.

Below, please find a comparison of the 2007-2008 and 2008-2009 Budget for debt service and the applicable tax rate:

	<u>FY 2008-2009</u>	<u>FY 2007-2008</u>	<u>Change</u>	<u>% Change</u>
Appropriation	\$ 75,012,817	\$ 79,849,583	\$ (4,836,766)	(6.0%)
Debt Service Tax Rate	\$ 7.4779 mills	\$ 8.0683 mills	\$ (.5904)	(7.3%)
Property Valuation	\$ 10,031,267,736	\$ 9,896,704,742	\$ 134,562,994	1.3%

Questions

1. Why did the 2007-2008 valuations change between last April when the Mayor's budget was presented to Council and this April's 2008-2009 recommended budget?
2. Why would the proposed collection rate for 2008-2009 be 100%? The county has begun to return the uncollectible tax bills, correct? Please provide a list of what has gone to the county and what has subsequently been returned since this program began.
3. Why would the Administration put \$3.5 million into Airport infrastructure when it is unclear what direction the Airport will be going? If a private company contracts to run it, it should be the contractor's responsibility to have sufficient fees to cover costs including capital costs. The \$5 million in the 2006-2007

(not yet sold) bond sale was also for acquiring land around the airport for new regulatory safe spaces.

4. Why are investment earnings being budgeted for projects – have the arbitrage calculations been completed and these funds do not have to be paid back?

**SUMMARY - ALL FUNDS
CAPITAL FINANCING**

**CITY OF DETROIT
SUMMARY OF CAPITAL IMPROVEMENTS- GENERAL CITY AGENCIES
2008-2009 MAYOR'S RECOMMENDATIONS**

	BOND SALE	CAPITAL REINVESTMENT	STREET FUND	TOTAL
COLEMAN A. YOUNG MUNICIPAL AIRPORT				
Land Acquisition	\$ 3,500,000			\$ 3,500,000
ARTS				
DIA Improvements		\$ 100,000		\$ 100,000
DEPARTMENT OF PUBLIC WORKS				
DPW- District Maintenance Building			\$ 2,679,200	\$ 2,679,200
New Street Construction			4,771,851	4,771,851
Road and Bridges- City Parks			878,000	878,000
Street Resurfacing – Contractual			263,686	263,686
Traffic Control Improvements State			5,371,952	5,371,952
Departmental Sub-total			<u>\$ 13,964,689</u>	<u>\$ 13,964,689</u>
FIRE				
Electric Generator	\$ 400,000			\$ 400,000
Major Renovation – Fire Facilities	5,100,000			5,100,000
Department Sub-total	<u>\$ 5,500,000</u>			<u>\$ 5,500,000</u>
GENERAL SERVICES DEPARTMENT				
Capital (Abatement) Workforce		\$ 1,100,000		\$ 1,100,000
DEPARTMENT OF HEALTH & WELLNESS PROMOTION				
Animal Control and Care Facility	\$ 1,500,000			\$ 1,500,000
HISTORICAL				
Facility Improvements	\$ 17,200,000			\$ 17,200,000

**SUMMARY - ALL FUNDS
CAPITAL FINANCING**

**CITY OF DETROIT
SUMMARY OF CAPITAL IMPROVEMENTS- GENERAL CITY AGENCIES
2008-2009 MAYOR'S RECOMMENDATIONS**

	<u>BOND SALE</u>	<u>CAPITAL REINVESTMENT</u>	<u>STREET FUND</u>	<u>TOTAL</u>
POLICE				
1) Forensic Laboratory and Property Room	\$ 17,500,000			\$ 17,500,000
PUBLIC LIGHTING				
1) Belle Isle Substation & Distribution	\$ 3,500,000			\$ 3,500,000
2) Street Lighting Modernization	1,500,000			1,500,000
3 Mistersky Turbines	2,000,000			2,000,000
Department Sub-total	<u>\$ 7,000,000</u>			<u>\$ 7,000,000</u>
RECREATION				
1) Capital Operations		\$ 1,000,000		\$ 1,000,000
APPROPRIATION TOTALS	<u>\$ 52,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 13,964,689</u>	<u>\$ 68,364,689</u>
REVENUES:				
Sale of General Obligation Bonds	\$ 52,200,000			\$ 52,200,000
Street Fund Reimbursement- Gas & Weight			\$ 13,964,689	\$ 13,964,689
Capital Reinvestment		\$ 2,200,000		\$ 2,200,000
REVENUES TOTAL	<u>\$ 52,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 13,964,689</u>	<u>\$ 68,364,689</u>

**SUMMARY - ALL FUNDS
CAPITAL FINANCING**

2008-09 CAPITAL PROJECT INFORMATION AND EFFECT ON OPERATING BUDGET

The following is a description by department of the capital projects included in the 2008-09 Recommended Capital Program. The IMPACT on the budget is denoted by a code as follows:

Impact on Operating Budget:

AF=additional funding required
RF=results in reduction of funding
NOI=no operating IMPACT

Impact on Staff in the Operating Budget:

AS=additional staffing required
RS=results in reduction of staffing
NSI=no staffing IMPACT

COLEMAN A. YOUNG MUNICIPAL AIRPORT

Land Acquisition- Funding is recommended for the completion of the land acquisition project first started in 1994. The project was required by the FAA to maintain proper clearances for existing runways. IMPACT ON BUDGET: NOI/NSI

ARTS

D.I.A. Improvements - Capital funds will be used to implement projects as outlined in the agency's Master Plan. Funds for FY 2008-09 represent interest earning obligations as specified in the agency's operating agreement. IMPACT ON BUDGET: NOI/NSI

DEPARTMENT OF PUBLIC WORKS

Facility Improvements - District Maintenance Building- Funding is requested for demolition of existing old structure and construct of a new stockroom and maintenance facility for the Street Maintenance Division in order to accommodate road construction staff. IMPACT ON BUDGET: AF/NSI

New Construction and Street Resurfacing-Contractual, - This continuing program allocates funds for resurfacing streets and repairing curbs. IMPACT ON BUDGET: RF/NSI

Roads and Bridges- City Parks- This continuing program allocates funds for road infrastructure improvements in city parks. IMPACT ON BUDGET: RF/NSI

Traffic Control Improvements-State- This continuing program allocates funds for traffic control repair, maintenance and upgrades. IMPACT ON BUDGET: RF/NSI

FIRE

Electrical Generators- This is a two-phase program to purchase and install emergency electrical generators at fire facilities (33 in total) that currently do not have emergency back-up power capability. Funds will be used to install remaining units in FY 2008-09. IMPACT ON BUDGET: NOI/NSI

Major Renovations- Fire Facilities- This is a multi-year program to fund major renovations at various fire facilities. The renovations include roof repair and replacements; and doors and floors replacement to accommodate heavy movable equipment. IMPACT ON BUDGET: NOI/NSI

SUMMARY - ALL FUNDS CAPITAL FINANCING

GENERAL SERVICES

Capital Workforce - This is a continuous capital improvement program which utilizes city employees (formerly located in the Recreation Department) to construct and rehabilitate neighborhood parks, playfields, tot-lots and playgrounds. IMPACT ON BUDGET: NOI/NSI

HEALTH & WELLNESS PROMOTION

Animal Control Center- Additional funding is required for the construction of a new animal control facility that will meet current federal and state guidelines. Funds were budgeted for this project in previous fiscal years. The project is currently in the final design phase and is awaiting groundbreaking activity. IMPACT ON BUDGET: NOI/NSI

HISTORICAL

Facility Improvements- Improvements to the main museum will be completed under the museum's renovation and expansion project. Renovations/improvements will be made consistent with the overall plan to expand the museum and to ensure continued operation of the facility. IMPACT ON BUDGET: NOI/NSI

POLICE

Forensic Laboratory and Property Room: Additional funding is requested for the construction of a replacement facility for the Police Department's crime lab and property room that meets accepted industry standards and provide for sufficient and secure storage space. IMPACT ON BUDGET: NOI/NSI

PUBLIC LIGHTING DEPARTMENT

Belle Isle Substation and Distribution- The Belle Isle substation and distribution system is currently operating at capacity. Funding is requested to expand capacity and ensure reliability of the Belle Isle electrical service. IMPACT ON BUDGET: RF/NSI

Street Lighting Modernization- This is an on-going capital improvement project involving prioritizing and evaluating city, county and state streets and roads; historic districts and residential neighborhoods to modernize street lighting. Funds for FY 2008-09 will be used for lighting improvements to Outer Drive. IMPACT ON BUDGET: RF/NSI

Mistersky- The Mistersky Power plant turbine generators are in need of overhaul services. Funding is requested to complete this necessary service, which is recommended to be completed every six years. IMPACT ON BUDGET: RF/NSI

RECREATION

Capital Operations - Funding is recommended for various activities promoting the operations of the department, including in-house design and construction management; surveys and studies required for various recreation projects, and city match for grant awards. IMPACT ON BUDGET: NOI/NSI